

Can Dutch Disease be successfully treated? Lessons from the Netherlands' experience for Latin America

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Abstract

The phrase 'Dutch disease' as a form of 'resource curse' occurs frequently in the literature on natural resources and development. It is usually associated with the transmission mechanism between the windfall effects linking exporting large amounts of a low unit cost, natural resource to the performance of the manufacturing sector. The mechanism focuses upon changes in exchange rates that threaten to shift the economy towards falling manufactured exports and increased consumption of manufactured imports at the expense of domestic manufacturing.

Neo-classical economics theory sees a market-driven tendency towards a 'leisured' rentier economy as inevitable and acceptable. Institutional economics theory is concerned about the negative effects of this tendency and emphasise the possibility that the windfall revenues offer an opportunity to increase productive investment with appropriate policy interventions. Political economy theory sees the dangers of a drift towards a rentier economy, but is more pessimistic about off-setting policy interventions.

This paper makes quantitative comparisons between the average performance of OECD economies and the Netherlands' economy to assess how far the Netherlands economy demonstrated signs of Dutch Disease in the period after the initial discovery of off-shore gas reserves in the 1960s and whether there are signs of any subsequent shift towards more productive use of the gas revenues subsequently.

The results of the comparison do suggest that after an initial period of Dutch Disease, changes in macro-economic, micro-economic, and human resource policies from the mid-1980s shifted the economy towards more productive use of gas revenues culminating in 1994 with the establishment of a 'Fund for Enhancement of the Economic Structure'. Looking towards Latin America, the results indicate the need for a hybrid institutional economics and political economy approach to understanding the impact of natural resource extraction and the importance of evidence-based, societal deliberative learning processes informing an effective accountable governance regime.

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John Cameron has been researching development issues for forty five years. He is a formal economist by original training, but has published journal articles claiming that relevant economics must always have a strong institutional awareness, including recent articles applying institutional economics to the political economy of environmental change.

Ayesha Mehboob is also an economist and undertook post-graduate research into the history of so-called 'Dutch Disease' at the Institute of Social Studies. She is currently working in Pakistan.